UNEMPLOYMENT COMPENSATION TAX
RCWs 50.24 and 50.29

Tax Base

Wages paid by employers. A maximum amount of wages paid to any individual is subject to the tax. The maximum is based on $10,000 for calendar year 1985, increased by 15 percent each year (RCW 50.24.010). However, the calculated maximum annual wage subject to tax may not exceed 80 percent of the average annual wages paid, calculated pursuant to RCW 50.04.355. The maximum amount of annual wages subject to unemployment compensation tax during 2002 is $28,500.

Tax Rate

The contribution rate for each employer is determined by a schedule contained in RCW 50.29.025. First, the appropriate schedule to be used by all employers for the calendar year must be determined by the Department. There are seven different rate schedules, each with a maximum contribution percentage of 5.4 percent but with differing percentages for lower rate classes. The schedule that will apply is obtained by dividing the fund balance on the prior June 30 by the amount of tax paid during the previous year. The calculated ratio determines which of the seven schedules will be used during the following year:

Ratio	Schedule
2.90 or greater	AA
2.50 to 2.89	A
2.10 to 2.49	B
1.70 to 2.09	C
1.30 to 1.69	D
1.00 to 1.29	E
less than 1.00	F

During 2002, rate schedule A is in effect with actual rates ranging from 0.48 to 5.40 percent (see below). There is also an additional tax of 0.02 percent, denoted as the Employment Administration Fund (EAF), that is used for special employment assistance.

Next, each employer's experience rating is determined to see which rate class will apply. There are 20 different rate classes, each representing approximately 5 percent of the cumulative taxable payrolls. Each employer is assigned to one of the rate classes, according to the firm's benefit ratio, calculated pursuant to RCW 50.29.027. This ratio is obtained by dividing the total of all unemployment compensation benefits charged to the firm during the previous 48 months by the total taxable payroll of the firm during the same period. For example, the 5 percent of all firms with the lowest benefit ratios will be assigned to rate class #1 and they will pay the lowest contribution rates during the following calendar year.

There are circumstances where a firm would not be considered a "qualified employer." Those firms would be assigned the industry average, the predecessor's rate class at the time of transfer, or a delinquency rate depending upon their particular circumstances. The tax rates assigned to the industry average range from 1.0 percent to 5.4 percent, plus the 0.02 percent Employment Administration Fund. The tax rates assigned to accounts with the predecessor's rate class would range from 0.48 percent to 5.4 percent plus the 0.02 percent EAF for Schedule A. If a firm does not meet the definition of "qualified employer" because it has previously failed to pay the correct amount of the contribution by September 30, 1998, the contribution rate will be 5.6 percent, plus the 0.02 percent EAF.

To illustrate the contribution rate schedule, listed below are the rates under the seven schedules for the lowest, middle and highest rate classes.

Class	AA	A	B	C	D	E	F
1	0.48%	0.48%	0.58%	0.98%	1.48%	1.88%	2.48%
10	1.68	1.98	2.38	2.78	3.18	3.58	3.98
20	5.40	5.40	5.40	5.40	5.40	5.40	5.40

Recent Collections ($000)

Fiscal Year	Collections	% Change
2001*	$834,239	-.-
2000	919,284	6.4%
1999	864,387	9.0
1998	793,076	20.1
1997	660,205	9.3
1996	604,031	(0.1)
1995	604,439	2.6
1994	589,073	5.5
1993	558,483	3.8
1992	538,280	3.3

*collections not yet complete.

Levied by	State

Distribution of Receipts	Unemployment compensation fund to be used to pay benefits to eligible unemployed individuals, calculated pursuant to RCW 50.20.120.

Administration

Employment Security Department. Each employer is notified by the Department of the assigned contribution rate to be paid for each year, as well as the amount of benefits paid to previous employees of the firm which are charged to the employer's account. All employers report on a quarterly basis. Taxable employers pay a quarterly tax with the filing of their reports. Employers who elect to make payments in lieu of contributions file a quarterly tax report but pay quarterly based on a billing for unemployment insurance benefits paid to their former employees.

Exemptions

Local government jurisdictions may elect either the taxable payment method or may choose to make payments in lieu of contributions for coverage of their employees. In such instances, RCW 50.44.035 provides for an alternative "local government tax." Taxable government tax rates are based on a reserve ratio and a benefit cost ratio specified in the statute; their rate of contributions ranges from 0.2 percent to 3.0 percent.

A similar alternate method for financing the benefits for employees of nonprofit organizations (according to Section 501(c)(3) of the Internal Revenue Code) is provided by RCW 50.44.060.

History

The tax was established in 1937 as part of the Social Security Act, administered by the Department of Social Security. The initial rate was 1.8 percent of wages paid. In 1942 a benefit experience factor was included and the maximum rate became 2.7 percent. The current rate system with six schedules and the 20 classifications was adopted in 1984; in 1993 a seventh rate schedule was added.

Discussion/Major Issues

The payroll tax represents a major obligation of employers doing business in Washington; total payments equal nearly one-half of state business and occupation tax liability. It is not usually considered as one of the general taxes levied by the state, since its receipts are solely dedicated to funding unemployment benefits. As such, it is more similar in nature to a state required insurance program. Nonetheless, the amount of funds paid represents a significant financial obligation for employers, particularly for those firms which have experienced a high level of employee turnover in recent years.